

Message Text

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PAGE 01 NEW DE 00942 191240Z

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SUBJ: THE IMPACT OF OIL ON INDIA'S TRADE AND BALANCE OF

PAYMENTS POSITION: TOO MANY UNCERTAIN VARIABLES TO SAY FOR SURE.

1. WE HAVE SHARPENED OUR PENCILS AND OONE SOME FIGURING TO SEE IF WE MIGHT GET A BETTER FIX ON THE EFFECTS OF THE OIL CRISIS ON INDIA'S TRADE AND PAYMENTS SITUATION. THE SITUATION IS OBVIOUSLY TOO UNCERTAIN AND FLUID TO SAY MUCH WITH CONFIDENCE, EXCEPT THAT THE OIL BILL IS BOUND TO GO UP SHARPLY. HOWEVER, IT IS POSSIBLE TO CLARIFY THE FRAMEWORK IN WHICH OUR THINKING TAKES PLACE BY WORKING OUT AN ARRAY OF POSSIBLE OUTCOMES WHICH FALL WITHIN REASONABLE LIMITS.

2. AS REGARDS TO THE OIL BILL ITSELF, THREE VARIABLES BESIDES PRICE ARE INVOLVED: (1) CONSUMPTION, (2) DOMESTIC PRODUCTION
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PAGE 02 NEW DE 00942 191240Z

OF CRUDE, AND (3) VOLUME OF IMPORTS OF CRUDE AND REFINED

PRODUCTS. BY POLICY, THE GOI HAS CONSTRAINED CONSUMPTION LARGELY TO THE REFINING CAPACITY IN INDIA. CAPACITY IS SLOWLY MOVING UPWARD, BUT WILL NOT BE SIGNIFICANTLY HIGHER UNTIL AFTER 1978. UNDER PRESENT CIRCUMSTANCES, THE PRICE OF IMPORTED CRUDE IS LIKELY TO BE AS IMPORTANT A CONSTRAINT AS REFINING CAPACITY. THEREFORE, WE ASSUME THAT AT MOST THE TOTAL CONSUMPTION OF CRUDE OIL WILL NOT SIGNIFICANTLY INCREASE ABOVE THE 1973 LEVEL OF 158 MILLION BARRELS (OF WHICH 101 MILLION BARRELS WERE IMPORTED), PLUS SOME IMPORTED PRODUCTS OF A TYPE INDIA CANNOT PRESENTLY PRODUCE OR FOR TECHNICAL REASONS CHOOSES NOT TO. AT THIS LEVEL OF CONSUMPTION, IF THE PRICE OF CRUDE IS \$6.00 A BARREL, THE IMPORT BILL FOR CRUDE AND PRODUCTS WOULD RISE FROM 484 MILLION IN 1973 TO PERHAPS \$818 MILLION. AT \$8.00 A BARREL, THE FIGURE BECOMES \$1,091 MILLION AND AT \$10.00 A BARREL, \$1,364 MILLION.

3. ASSUMING THAT DOMESTIC PRODUCTION OF CRUDE WAS CONSTANT WHILE TOTAL CONSUMPTION WAS REDUCED BY 10 PERCENT, THE TOTAL ANNUAL IMPORT BILL FOR PETROLEUM AND PRODUCTS, AGAIN AT \$6.00, \$8.00 AND \$10.00 A BARREL, BECOMES \$736 MILLION, \$859 MILLION, AND '1.2" MILLION RESPECTIVELY. IF DRACONIAN MEASURES WERE TAKEN (ABOUT WHICH THE GOI HAS DONE SOME THINKING) AND CONSUMPTION WAS REDUCED BY 25 PERCENT BELOW 1973, THESE FIGURES BECOME \$614 MILLION, \$818 MILLION AND \$1,023 MILLION.

4. INDIA COULD INCREASE OUTPUT FROM ITS CURRENT OIL FIELDS. THE FURTHER THIS PROCESS IS PUSHED, THE GREATER THE RISK OF DAMAGE TO THE FIELDS. ASSUMING THAT OUTPUT FROM EXISTING FIELDS COULD BE INCREASED FROM THE CURRENT 7.8 MILLION TONS (57 MILLION BARRELS) TO 9 MILLION TONS (65 MILLION BARRELS) WITHOUT UNACCEPTABLE RISK, AND THAT CONSUMPTION IS HELD UNCHANGED, THE IMPORT BILL, AGAIN AT \$6.00, \$8.00, AND \$10.00 A BARREL, WOULD BECOME \$745 MILLION, \$994 MILLION, AND \$1,242 MILLION RESPECTIVELY. IF INDIA WERE TO INCREASE OUTPUT FROM ITS DOMESTIC FIELDS IN THIS MANNER AND SIMULTANEOUSLY CUT TOTAL CONSUMPTION BY ONE-FOURTH, THE OIL IMPORT BILL WOULD BE \$558 MILLION, \$745 MILLION, AND \$932 MILLION.

5. OBVIOUSLY, SOME OF THE OUTCOME IN THIS ARRAY ARE MORE LIKELY THAN OTHERS. WE WOULD ASSUME THAT THE HIGHER THE PRICE LIMITED OFFICIAL USE

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PAGE 03 NEW DE 00942 191240Z

OF CRUDE, THE MORE LIKELY INDIA WOULD BE TO SHIFT TO OIL STRATEGIES INVOLVING HIGHER DOMESTIC PRODUCTION AND LOWER TOTAL CONSUMPTION, I.E., AWAY FROM THE OUTCOMES IN PARA 2 AND TOWARDS THOSE IN PARA 4. LOWER TOTAL CONSUMPTION, OF COURSE, WOULD BE AT THE DIRECT EXPENSE OF INDIA'S ALREADY NONE-TOO-ROBUST ECONOMIC GROWTH RATE, BUT INDIA HAS DEMONSTRATED A WILLINGNESS TO SACRIFICE GROWTH FOR THE BALANCE OF PAYMENTS IN THE PAST.

6. WE WOULD ALSO ASSUME THAT AS THE OIL IMPORT BILL RISES, INDIA WOULD ATTEMPT TO OFFSET ITS IMPACT ON THE BALANCE OF PAYMENTS AND RESERVES BY REDUCING OTHER IMPORTS. ITS TIGHT LICENSING SYSTEM OVER IMPORTS GIVES IT THE TOOLS. IT IS DIFFICULT TO ESTIMATE HOW MUCH INDIA COULD SAVE IN THIS MANNER. AGAIN, HOWEVER, THE HIGHER THE IMPORT BILL FOR OIL, THE TIGHTER INDIA MAY BE EXPECTED TO CLAMP DOWN ON OTHER IMPORTS.

7. SOME OFFSET MAY ALSO BE EXPECTED ON THE EXPORT SIDE, FOR EXAMPLE, BOTH PRICE AND QUANTITY FACTORS SHOULD OPERATE IN INDIA'S FAVOR FOR SUCH IMPORTANT EXPORTS AS COTTON, TEXTILES, AND JUTE. WHILE INDIA MAY CONTINUE TO RECEIVE THE HIGH PRICES FOR THESE AND OTHER EXPORTS THAT HAVE CONTRIBUTED SO SUBSTANTIALLY TO THE MAINTENANCE OF A STRONG TRADE POSITION THROUGHOUT 1974, NQE ASSUME THAT INDIA WILL ALSO FACE HIGHER PRICES FOR SEVERAL IMPORTS.

8. IT IS OBVIOUSLY IMPOSSIBLE TO COME UP WITH ANYTHING VERY FIRM IN THIS HIGHLY COMPLEX AND RAPIDLY CHANGING SITUATION. EVEN IF THE OIL IMPORT BILL SHOULD INCREASE BY AS MUCH AS \$400 MILLION TO \$700 MILLION ANNUALLY, AS PRESENTLY SEEMS LIKELY, A SUBSTANTIAL AMOUNT OF THIS WOULD BE OFFSET BY THE OTHER FACTORS MENTIONED ABOVE. EARLIER ESTIMATES OF INDIA'S TRADE AND PAYMENTS SITUATION, SUCH AS THOSE CONTAINED IN OUR A-416 OF DECEMBER 8, 1973, ARE OF DIMINISHING VALIDITY IN THIS SITUATION. ALTHOUGH THE SITUATION IS OBVIOUSLY SERIOUS AND DEMANDING OF CAREFUL WATCHFULNESS AND CONTINGENCY PLANNING, IT SEEMS TO US THAT IT IS A LITTLE EARLY TO HIT THE PANIC BUTTON QUITE SO HARD AS SO MANY IN INDIA AND ELSEWHERE ARE PRESENTLY INCLINED TO DO.
MOYNIHAN

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